

DCI's Iran Testimony for HPSCI and SSC:
21 November 1986

Throughout the Reagan Administration, both the national security community and the intelligence community have been keenly aware and constantly concerned about the geopolitical position and the strategic significance of Iran. Much thought and effort has been devoted to how we might develop contacts and relationships which would provide a better understanding of what is happening there and establish contacts and relationships which might lead to improved relationships later on.

I recall speaking to President Sadat of Egypt at his home on the Nile outside Cairo about the importance of our identifying and establishing contact with leaders in a future Iran. That was only a few weeks before he was shot. In his most dramatic manner, President Sadat said that we do not know who will emerge to lead Iran in the future, but that we must gather all the strands and hold them in our hands so that we will be ready. [

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In the early fall of 1985, Bud McFarlane, after one of the weekly meetings which he and his deputy had with me and my deputy, asked me to stay behind. He told me about discussions he had had at the highest levels in Israel urging the desirability of discussions with officials in Iran and offering channels of access. He told me that, for obvious reasons, only a handful of people in the Israeli and American governments were to be told about this effort. I distinctly recall McFarlane emphasizing that the purpose of such discussions would be the future relationships with Iran and Iran's great importance in the East-West and Middle East-Persian Gulf equation.

It began when the Agency was asked to recommend a reliable transport bulky oil-drilling parts to an unspecified Middle East. We recommended a proprietary of ours called this little airline regularly took on commercial ventures. CIA knew the cargo consisted of 18 Hawk missiles. In Tel Aviv, the pilots were told the cargo was spare parts and was to go into Tabriz. Our [] decided to select the plane. [] should be asked to fly into Iran. On 25 November 1985, the plane dropped the best of our knowledge, neither the Israelis nor the Iranians were dealing with a CIA proprietary, nor did the airline they were carrying. The airline was paid the normal fee, which amounted to approximately \$127,700. I should stress that this was a considerable amount of normal business in addition to the fact that it had, in fact, made another unrelated commercial flight carrying commercial items prior to the 22-25 November period. The Deputy Director for Operations authorized the flight on the basis of the urgency of the requirement. When the Deputy Director learned on 26 November, it was decided that we would not provide any support for the flight into Iran in the absence of a finding.

of probing the possibility of making small shipments of arms to them to use their influence with Iran at one or two meetings of the NSPG. The desirability of this should be cautiously pursued. In National Security Advisor, Iranian expatriate who was their contact at this meeting, Mr. McFarlane. The discussions with Iran were these: establishing a strategic relationship on favorable terms. Support for terrorism. Integrity of Iran and Iranian activities in the region. A relationship we would expect Iran to release Western hostages in Lebanon. Iran would not engage in trading arms. In several times with the President. Following the December McFarlane trip, a finding was signed directing the CIA to develop a program aimed at (1) establishing intelligence to determine the intentions of Iran with respect to its neighbors and with a view to the release of American hostages and to prevent terrorist acts by these groups.

The Finding stated that the USG would provide moderate elements within and without the government of Iran with arms equipment and related materiel in order to enhance the credibility of these elements in their efforts to achieve a more moderate government in Iran by demonstrating their ability to obtain resources to defend their country.

In the Finding, the President directed the CIA to refrain from reporting the Finding to the Congress until otherwise directed. The Finding was reviewed and concurred in by the Attorney General.

At the time the Presidential Finding was being drafted, the CIA's Office of General Counsel provided the legal opinion that the President has the authority to withhold prior notice of operations from the Congress. Section 501 of the National Security Act expressly provides that notification of intelligence activities to the Congress shall be provided "to the extent consistent with" all applicable authorities and duties, including those conferred by the Constitution."

The Act also states that the Intelligence Committees be informed of activities for which no prior notice was given at the appropriate time as determined by the President. This was a clear recognition that extraordinary circumstances could lead the President to conclude that notice of an operation should be withheld, in whole or in part.

The history to the Oversight Act shows that an accommodation recognizing both the President's constitutional responsibility and authority and the Congressional oversight responsibility and authority was reached in this legislative process. The subsequent procedures agreed upon by the DCI and the SSC: on reporting covert action operations provide that advance reporting of such operations would also be subject to the exceptional circumstances contemplated in Section 501 of the National Security Act.

The President has instructed me to advise you that he determined that the activities authorized by the Finding justified withholding prior notification due to the extreme sensitivity of the dialogue being established. He determined that if the fact of this program became known, those carrying out the dialogue (both U.S. and Iranian) and the American hostages in Lebanon would be put at a greater risk.

There have only been two Findings since the inception of the oversight process ten years ago which have not been briefed to Congress. This is one. The second was the Iranian hostage rescue mission.

Now I would like to explain exactly what activities were undertaken by the CIA in carrying out the directives of this Finding signed on 17 January 1986.

On 5-7 February 1986, U.S. officials (NSC), a representative of the Israeli Prime Ministry (Amiram Nir), and a senior-level Iranian official

[Iranian First Channel A

] met in Germany. At this meeting, the U.S. side emphasized its desire to enter into a strategic dialogue with the Iranian side. The Iranians raised their desire to receive U.S. weapons. The U.S. agreed to explore this possibility. Working with the Israelis, the following mechanism for transfer of the weapons was established:

- The Iranian intermediary (Ghorbanifar) would deposit funds in an Israeli account.
- The funds would then be transferred to a sterile U.S.-controlled account in an overseas bank.
- Using these funds, the CIA would work with the Army Logistics Command to obtain the materiel.
- The materiel would then be transported to Israel for future shipment to Iran.

Using these procedures, \$3.7 million was deposited in the CIA account in Geneva on 11 February 1986 for the purchase of 1,000 TOW missiles and associated costs.

On 15 February, Office of Logistics personnel delivered the 1,000 TOW missiles to Kelly Air Force Base. The missiles were then transported to Israel for onward shipment to Iran. CIA was not involved in the transportation of this shipment.

On 19-21 February, U.S. (NSC and CIA) and Iranian officials met again in Germany to discuss problems in arranging a meeting among higher-level officials. At this meeting, the U.S. side agreed to provide 1,000 TOWs to Iran as a clear signal of U.S. sincerity and support for the faction we were talking to. This delivery was commenced on the morning of 20 February and completed in two transits to Tehran on 21 February. Transportation from Israel to Iran was aboard a false flag Israeli aircraft.

On 24 February, the same U.S. officials traveled to Germany where they met with the intermediary and an Iranian government official. At that meeting, the Iranian official provided a list of varying quantities of approximately 240 different spare parts needed for the Hawk missile batteries provided by the USG to Iran during the Shah's reign. The Iranian official asked for USG assistance in obtaining these spare parts as additional proof that this channel had the approval of the highest authority in the USG.

On 25 February, the U.S. officials, as they continued to do in later contacts with the Iranians, provided the Iranians with limited information designed to encourage an Iranian decision to negotiate an end to the war and increase Iranian awareness of the Soviet threat to Iran.

Throughout March and April, the Office of Logistics worked with DoD to clarify the items on the Iranians' list of spare parts and identify which items were in DoD stocks.

On 7 March, U.S. (CIA and NSC) and Israeli representatives met with the Iranian intermediary in Paris to determine whether any further progress was possible in arranging for a high-level meeting with U.S. and Iranian officials. During these meetings, the intermediary emphasized the deteriorating economic situation in Iran and Iranian anxieties regarding increasing Iraqi military effectiveness.

Based on assurances that we could at last meet face-to-face with top-level Iranian officials, on 15 May the President authorized a secret mission to Tehran by former National Security Advisor McFarlane, accompanied by a CIA annuitant, a CIA communicator, members of the NSC Staff, and the Israeli and Iranian interlocutors.

On 16 May 1986, the Iranians provided \$6.5 million through an intermediary for Hawk spare parts and an additional 508 TOW missiles. The receipt of the Iranian funds set into motion arrangements for the planned visit to Iran as follows:

-- The Office of Communications provided secure communication equipment and the services of a communications officer to travel to Iran with the U.S. team

-- The Office of Technical Service was tasked to provide ten [false foreign] passports for use by the team and the air crew of the aircraft that would fly from Israel to Tehran.

The Iranians insisted on the use of non-U.S. passports. [Particular foreign] passports were chosen because the Israeli aircraft used for the journey carried [,] registration numbers.

[that country's] 7

- The Office of Logistics assembled the available Hawk missile spare parts at Kelly Air Force Base. The parts were then transported to Israel by a private contractor (Southern Air Transport).
- The Office of Logistics delivered 508 TOW missiles to Kelly Air Force Base for onward shipment to Israel by private contractor (Southern Air Transport).

On 25 May, the U.S. team traveled to Tehran via Israel. The CIA provided two members of the team--a communications officer and a Farsi speaking annuitant with considerable experience in Iranian affairs. The annuitant provided translation services and advice to the team. He continued to be involved in subsequent meetings with Iranian representatives.

The U.S. team brought a single aircraft pallet of Hawk missile spare parts with them to Tehran at the time of the meeting. However, it was decided that the greater portion of the spare parts would stay in Israel for later delivery to Iran pending further progress in establishing the dialogue. We understand that those spare parts were ultimately delivered to Iran.

The 25-29 May meetings were held with high-level Iranian officials, the first direct contact between the two governments in over six years. Mr. McFarlane and his team were able to establish the basis for a continuing relationship and clearly articulate our objectives, concerns, and intentions. The group was also able to assess first-hand the internal political dynamic in Tehran and the effect of the war on Iran. Using Presidentially-approved Terms of Reference, which had been reviewed and approved by appropriate Cabinet officers, McFarlane emphasized that our interest in Iran transcended the hostages, but the continued detention of hostages by a Lebanese group philosophically aligned with Iran prevented progress. During the visit, Mr. McFarlane made clear:

- that we fundamentally opposed Iranian efforts to expel us from the Middle East;
- that we firmly opposed their use of terrorism;
- that we accepted their revolution and did not seek to reverse it;
- that we had numerous other disagreements involving regional policies (i.e., Lebanon, Nicaragua, etc.), but might also find areas of common interest (i.e., Afghanistan) through dialogue.

On 19 September, three Iranians traveled to the U.S. for detailed discussions with the U.S. team. These discussions reaffirmed the basic objectives of the U.S. in seeking a political dialogue with Tehran.

Throughout August and September, numerous additional meetings were held in Europe between U.S. representatives and the new Iranian contacts in an effort to develop the dialogue authorized by the Presidential Finding.

On 6 October, those Iranians traveled to Frankfurt for meetings with the U.S. team. [

On 26 October, more meetings were held in Frankfurt with the same participants. [

The Iranians proffered, and the U.S. accepted, the offer of a Soviet T-72 tank captured from Iraq. That tank should be in our hands shortly.

On 2 November, the Iranians provided \$2.037 million and the Office of Logistics procured 500 more TOW missiles from DoD.

Those missiles were delivered by the Office of Logistics to Kelly Air Force Base on 6 November. A USAF C-141 aircraft carried the missiles to [a European country] where they were transshipped by a CIA air proprietary aircraft which carried the missiles to Israel.

This brings the record of CIA involvement in these activities authorized by the 17 January 1986 Presidential Finding up to date as of the present time. We should note that none of the weapons came from CIA stocks.

We have received no requests to acquire any more materiel of any type for shipment to Iran under this program.

I would like to reiterate that the funds for the procurement of the materiel enumerated above, as well as for all associated costs, were provided by the Iranians themselves. Funding from Iran was transferred to CIA for deposit in a covert funding mechanism. This action provided secure means for control, payment, and accountability of all funding associated with this program. The Iranian funds, a total of \$12,237,000, were deposited into a special account in a Swiss bank.

The only costs incurred by the CIA in this activity were expenses for the travel of CIA officers involved in the various meetings, the costs of hotel rooms [

], and operational support [] amounting to approximately \$48,000. The costs for this support have been charged against normal operational accounts. Since all travel by CIA officials is routinely charged to such accounts, to do otherwise in the case of the trips undertaken during this program would have compromised the security of the activities.

Let me make it perfectly clear that it was apparent to all that this initiative was a controversial one. Even those of us who supported going forward understood that it was a close call and a risky operation. There were no illusions.

Was it a reasonable call? Yes. I think it was. As the health of Khomeini has declined over the past year, we have seen an increase in factional infighting in Tehran. This infighting has been sharpened by severe economic problems, as well as the war with Iraq. There have been numerous arrests. This factional infighting has implications for both the United States and the Soviet Union. It was the Administration's judgment that any powerful Iranian faction seeking to reestablish ties with the West and willing to attempt to curtail Iranian support for terrorism was worth talking to.

It was in that context that the judgment was made that providing a small amount of defensive weapons would give this faction some leverage in the internal struggle by suggesting that there were advantages in contacts with the West.

As I stated earlier, Iran is not going to go away. Its geographic and strategic positions guarantee that it will remain a geopolitical force which the U.S. will have to deal with. If we do not establish ties to the various Iranian factions now we will be faced with the problem of doing so later. It is that simple.

DRAFT FOLLOWS

DCI's Iran Testimony for HPSCI and SSOCI
21 November 1986

EXHIBIT

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For the last five years, both the national security community and the intelligence community have been keenly aware and constantly concerned about the geopolitical position and the strategic significance of Iran. Much thought and effort has been devoted to how we might develop contacts and relationships which would provide a better understanding of what is happening there and establish contacts and relationships which might lead to improved relationships later on.

I recall speaking to [REDACTED]

[REDACTED] about the importance of our identifying and establishing contact with leaders in a future Iran.

[REDACTED] we do not know who will emerge to lead Iran in the future, but that we must gather all the strands and hold them in our hands so that we will be ready.

[REDACTED]

In the early fall of 1985, Bud McFarlane, after one of the weekly meetings which he as National Security Advisor and his deputy had with me and my deputy, asked me to stay behind. He told me about discussions he had had at the highest levels in Israel urging the desirability of discussions with officials in Iran and offering channels of access. He said that, for obvious reasons, only a handful of people in the Israeli and American governments knew about this effort. McFarlane emphasized that the purpose of such discussions would be the future relationships with Iran and Iran's great importance in the East-West and Middle East-Persian Gulf equation.

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CIA's involvement began in late November when the Agency was asked to recommend a reliable airline that could transport bulky cargo to an unspecified location in the Middle East. The requirement specified that it be reliable and able to move fast. A proprietary of ours which regularly took on commercial ventures was designated. When the plane got to Tel Aviv, the pilots were told the cargo was spare parts for the oil fields and was to go into Tabriz. Our [REDACTED] decided that in order to protect the plane, [REDACTED] should be asked to get flight clearances into Iran. This was done. On 25 November 1985, the plane dropped the cargo in Tehran. To the best of our knowledge, neither the Israelis nor the Iranians knew that they were dealing with a CIA proprietary. The airline was paid the normal commercial rate which amounted to approximately \$127,700.

All this was authorized by our Associate Deputy Director for Operations. I was out of the country at the time and the Deputy Director, then in charge, approved the flight as an urgent mission in keeping with the proprietary's normal business. But he directed that we would not provide any future flights into Iran in the absence of a Finding.

In the meantime, the Israeli proposal of probing the possibility of discussions with Iranian officials, including making small shipments of arms to establish our good faith and to induce them to use their influence with those holding our hostages, was discussed at one or two meetings of the MSPG principals in December and January. There were differences of view about the desirability of this policy, but it was decided that it should be cautiously pursued.

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On 7 December 1985, Bud McFarlane, then National Security Advisor, met in London with Israeli officials and the Iranian expatriate who was their intermediary to the Iranian government. At this meeting, Mr. McFarlane stated our goals of pursuing the relationship with Iran were these:

- Devising a formula for reestablishing a strategic relationship with Tehran.
- Ending the Iran-Iraq War on honorable terms.
- Convincing Iran to cease its support for terrorism.
- Helping ensure the territorial integrity of Iran and coordinating ways to counter Soviet activities in the region.

Mr. McFarlane made clear that in this relationship we would expect Iran to use its influence to achieve the release of Western hostages in Lebanon. He also made it clear that we could not and would not engage in trading arms for hostages. This matter was discussed again several times with the President and others in the national security community following the December McFarlane trip.

On 17 January 1986, a Presidential Finding was signed directing the CIA to provide operational and logistical support for a program aimed at three objectives (1) establishing a more moderate government in Iran, (2) obtaining intelligence to determine the current Iranian government's intentions with respect to its neighbors and with respect to terrorist acts, and (3) furthering the release of American hostages held in Beirut and preventing further terrorist acts by these groups.

The Finding stated that the USG would provide moderate elements within and without the government of Iran with arms, equipment and related materiel in order to enhance the credibility of these elements in their efforts to achieve a more moderate government in Iran by demonstrating their ability to obtain resources to defend their country.

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In the Finding, the President directed the CIA to refrain from reporting the Finding to the Congress until otherwise directed. The Finding was reviewed and concurred in by the Attorney General.

At the time the Presidential Finding was being drafted, the CIA's Office of General Counsel provided the legal opinion that the President has the authority to withhold prior notice of operations from the Congress. Section 501 of the National Security Act expressly provides that notification of intelligence activities to the Congress shall be provided "to the extent consistent with all applicable authorities and duties, including those conferred by the Constitution."

The Act also states that the Intelligence Committees be informed of activities for which no prior notice was given at the appropriate time as determined by the President. This was a clear recognition that extraordinary circumstances could lead the President to conclude that notice of an operation should be withheld, in whole or in part.

The history to the Oversight Act shows that an accommodation recognizing both the President's constitutional responsibility and authority and the Congressional oversight responsibility and authority was reached in this legislative process. The subsequent procedures agreed upon by the DCI and the SSCI on reporting covert action operations provide that advance reporting of such operations would also be subject to the exceptional circumstances contemplated in Section 501 of the National Security Act.

The President has instructed me to advise you of his conclusion that the activities authorized by the Finding justified withholding prior notification due to the extreme sensitivity of the dialogue being established. He determined

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that if the fact of this program became known, those carrying out the dialogue (both U.S. and Iranian) and the American hostages in Lebanon would be put at a greater risk.

There have only been two Findings since the inception of the oversight process ten years ago which have not been briefed to Congress. This is second. The first was the Iranian hostage rescue mission of 1980.

Now I would like to explain exactly what activities were undertaken by the CIA in carrying out the directives of this Finding of 17 January 1986.

On 5-7 February 1986, U.S. officials (NSC), a representative of the Israeli Prime Ministry, and a senior-level Iranian official met in Germany. At this meeting, the U.S. side emphasized its desire to enter into a strategic dialogue with the Iranian side. The Iranians raised their desire to receive U.S. weapons. The U.S. agreed to explore this possibility. Working with the Israelis, the following mechanism for transfer of the weapons was established:

- The Iranian intermediary would deposit funds in an Israeli account.
- The funds would then be transferred to a sterile U.S.-controlled account in an overseas bank.
- Using these funds, the CIA would work with the Army Logistics Command to obtain the materiel.
- The materiel would then be transported to Israel for future shipment to Iran.

Using these procedures, \$3.7 million was deposited in the CIA account in Geneva on 11 February 1986 for the purchase of 1,000 TOW missiles and associated costs.

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On 15 February, Office of Logistics personnel delivered the 1,000 TOW missiles to Kelly Air Force Base. The missiles were then transported to Israel for onward shipment to Iran. CIA was not involved in the transportation of this shipment.

On 19-21 February, U.S. (NSC and CIA) and Iranian officials met again in Germany to discuss problems in arranging a meeting among higher-level officials. At this meeting, the U.S. side agreed to provide 1,000 TOWs to Iran as a clear signal of U.S. sincerity and support for the faction we were talking to. This delivery was commenced on the morning of 20 February and completed in two transits to Tehran on 21 February. Transportation from Israel to Iran was aboard a false flag Israeli aircraft.

On 24 February, the same U.S. officials traveled to Germany where they met with the intermediary and an Iranian government official. At that meeting, the Iranian official provided a list of varying quantities of approximately 240 different spare parts needed for the Hawk missile batteries provided by the USG to Iran during the Shah's reign. The Iranian official asked for USG assistance in obtaining these spare parts as additional proof that this channel had the approval of the highest authority in the USG.

On 25 February, the U.S. officials, as they continued to do in later contacts with the Iranians, provided the Iranians with limited information designed to encourage an Iranian decision to negotiate an end to the war and increase Iranian awareness of the Soviet threat to Iran.

Throughout March and April, the Office of Logistics worked with DoD to clarify the items on the Iranians' list of spare parts and identify which items were in DoD stocks.

On 7 March, U.S. (CIA and NSC) and Israeli representatives met with the Iranian intermediary in Paris to determine whether any further progress was possible in arranging for a high-level meeting with U.S. and Iranian officials. During these meetings, the intermediary emphasized the deteriorating economic situation in Iran and Iranian anxieties regarding increasing Iraqi military effectiveness.

Based on assurances that we could at last meet face-to-face with top-level Iranian officials, on 15 May the President authorized a secret mission to Tehran by former National Security Advisor McFarlane, accompanied by a CIA annuitant, a CIA communicator, members of the NSC Staff, and the Israeli and Iranian interlocutors.

On 16 May 1986, the Iranians provided \$6.5 million through an intermediary for Hawk spare parts and an additional 508 TOW missiles. The receipt of the Iranian funds set into motion arrangements for the planned visit to Iran as follows:

- The CIA Office of Communications provided secure communication equipment and the services of a communications officer to travel to Iran with the U.S. team
- The CIA Office of Technical Service was tasked to provide ten [REDACTED] passports for use by the team and the air crew of the aircraft that would fly from Israel to Tehran. The Iranians insisted on the use of non-U.S. passports. [REDACTED] passports were chosen because the Israeli aircraft used for the journey carried [REDACTED] registration numbers.

- The Office of Logistics assembled the available Hawk missile spare parts at Kelly Air Force Base. The parts were then transported to Israel by a private contractor.
- The Office of Logistics delivered 508 TOW missiles to Kelly Air Force Base for onward shipment to Israel by private contractor.

On 25 May, the U.S. team traveled to Tehran via Israel. The CIA provided two members of the team--a communications officer and a Farsi speaking annuitant with considerable experience in Iranian affairs. The annuitant provided translation services and advice to the team. He continued to be involved in subsequent meetings with Iranian representatives.

The U.S. team brought a single aircraft pallet of Hawk missile spare parts with them to Tehran at the time of the meeting. However, it was decided that the greater portion of the spare parts would stay in Israel for later delivery to Iran pending further progress in establishing the dialogue. We understand that those spare parts were ultimately delivered to Iran.

The 25-29 May meetings were held with high-level Iranian officials, the first direct contact between the two governments in over six years. Mr. McFarlane and his team were able to establish the basis for a continuing relationship and clearly articulate our objectives, concerns, and intentions. The group, in its discussions and observations, was also able to assess first-hand the internal political dynamic in Tehran and the effect of the war on Iran. Using Presidentially-approved Terms of Reference, which had been reviewed and approved by appropriate Cabinet officers, McFarlane emphasized that our interest in Iran transcended the hostages, but the continued detention of hostages by a Lebanese group philosophically aligned with Iran prevented progress. During the visit, Mr. McFarlane made clear:

- that we fundamentally opposed Iranian efforts to expel us from the Middle East;
- that we firmly opposed their use of terrorism;
- that we accepted their revolution and did not seek to reverse it;
- that we had numerous other disagreements involving regional policies (i.e., Lebanon, Nicaragua, etc.), but might also find areas of common interest [REDACTED] through dialogue.

On 19 September, three Iranians traveled to the U.S. for detailed discussion with the U.S. team. These discussions reaffirmed the basic objectives of the U.S. in seeking a political dialogue with Tehran.

Throughout August and September, numerous additional meetings were held in Europe between U.S. representatives and the new Iranian contacts in an effort to develop the dialogue authorized by the Presidential Finding.

On 6 October, those Iranians traveled to Frankfurt for meetings with the U.S. team. [REDACTED]

On 26 October, more meetings were held in Frankfurt with the same participants. [REDACTED]

The Iranians proffered, and the U.S. accepted, the offer of a Soviet T-72 tank [REDACTED]

On 2 November, the Iranians provided \$2.037 million and the Office of Logistics procured 500 more TOW missiles from DoD.

Those missiles were delivered by the Office of Logistics to Kelly Air Force Base on 6 November. A USAF C-141 aircraft carried the missiles to [REDACTED] where they were transshipped by a CIA air proprietary aircraft which carried the missiles to Israel.

This brings the record of CIA involvement in these activities authorized by the 17 January 1986 Presidential Finding up to date as of the present time.

In summary, a total of 2,008 TOW missiles along with various Hawk missile spare parts have been delivered under the Finding of 17 January 1986. 1,000 TOWs were delivered in February 1986; 508 in May 1986; and 500 in November 1986. We should note that none of the weapons came from CIA stocks.

We have received no requests to acquire any more materiel of any type for shipment to Iran under this program.

I would like to reiterate that the funds for the procurement of the materiel enumerated above, as well as for all associated costs, were provided by the Iranians themselves. Funding from Iran was transferred to CIA for deposit in a covert funding mechanism. This action provided secure means for control, payment, and accountability of all funding associated with this program. The Iranian funds, a total of \$12,237,000, were deposited into a special account in a Swiss bank.

The only costs incurred by the CIA in this activity were expenses for the travel of CIA officers involved in the various meetings, the costs of hotel rooms

and operational support

amounting to approximately \$48,000. The costs for this support have been charged against normal operational accounts. Since all travel by CIA officials is routinely charged to such accounts, to do otherwise in the case of the trips undertaken during this program would have compromised the security of the activities.

I am confident that my testimony is complete as to the basic facts of CIA's involvement, but let me assure you that we are still combing our records and will promptly report any new information that comes to light.

Let me make it perfectly clear that it was apparent to all that this initiative was a controversial one. Even those of us who supported going forward understood that it was a close call and a risky operation. There were no illusions.

Was it a reasonable call? Yes, I think it was. As the health of Khomeini has declined over the past year, we have seen an increase in factional infighting in Tehran. This infighting has been sharpened by severe economic problems, as well as the war with Iraq. There have been numerous arrests. This factional infighting has implications for both the United States and the Soviet Union. It was the Administration's judgment that any powerful Iranian faction seeking to reestablish ties with the West and willing to attempt to curtail Iranian support for terrorism was worth talking to.

It was in that context that the judgment was made that providing a small amount of defensive weapons would give this faction some leverage in the internal struggle by suggesting that there were advantages in contacts with the West.

As I stated earlier, Iran is not going to go away. Its geographic and strategic positions guarantee that it will remain a geopolitical force which the U.S. will have to deal with. If we do not establish ties to the various Iranian factions now we will be faced with the problem of doing so later. It is that simple.

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20 Nov 86

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20 Nov 86

DCI's Iran Testimony for HPSCI and SSCJ
21 November 1986

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Throughout the Reagan Administration, both the national security community and the intelligence community have been keenly aware and constantly concerned about the geopolitical position and the strategic significance of Iran. Much thought and effort has been devoted to how we might develop contacts and relationships which would provide a better understanding of what is happening there and establish contacts and relationships which might lead to improved relationships later on.

I recall speaking to [REDACTED]

[REDACTED] about the importance of our identifying and establishing contact with leaders in a future Iran. [REDACTED]

[REDACTED] said that we do not know who will emerge to lead Iran in the future, but that we must gather all the strands and hold them in our hands so that we will be ready. [REDACTED]

In the early fall of 1985, Bud McFarlane, after one of the weekly meetings which he and his deputy had with me and my deputy, asked me to stay behind. He told me about discussions he had had at the highest levels in Israel urging the desirability of discussions with officials in Iran and offering channels of access. He told me that, for obvious reasons, only a handful of people in the Israeli and American governments were to be told about this effort. I distinctly recall McFarlane emphasizing that the purpose of such discussions would be the future relationships with Iran and Iran's great importance in the East-West and Middle East-Persian Gulf equation. [REDACTED]

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20 Nov 1986

DDO: S. P. 10007

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by E.O. 12958

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CIA's Iraq were seized when the aircraft was loaded at Baghdad. The aircraft was a small airplane that could transport only one passenger and no cargo. The destination in the Middle East. We recommended a preliminary of Iraq. [REDACTED] This little airplane regularly goes on commercial missions. Neither the airline nor the crew the cargo transported by it were known. When the plane got to Tel Aviv, the pilots were told the cargo was spare parts for the oil fields and was to go into Tehran. [REDACTED] We noted that in order to protect the plane, [REDACTED] should be asked to get flight clearances into Iran. On 25 November 1985, the plane dropped the cargo in Tehran. To the best of our knowledge, neither the Israelis nor the Iranians knew that they were dealing with a CIA aircraft, nor did a single personnel know what they were carrying. The airline was paid the normal commercial rate which amounted to approximately \$125,000. It should be noted that the airline does a considerable amount of normal business in addition to its support to CIA. [REDACTED]

Our Associate Deputy Director for Operations authorized the flight because of the alleged urgency of the requirement. When the Deputy Director was consulted on 25 November, it was decided that we would not provide any future support of flights into Iran in the absence of a warning.

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In the meantime, the Israeli proposal of probing the possibility of discussions with Iranian officials, including making small shipments of arms to establish our good faith and to induce them to use their influence with those holding our hostages, was discussed at one or two meetings of the NSPG principals. There were differences of view about the desirability of this policy, but it was finally decided that it should be cautiously pursued.

In 7 December 1985, Bud McFarlane, then National Security Advisor, met in London with Israeli officials and the Iranian expatriate who was their intermediary to the Iranian government. At this meeting, Mr. McFarlane stated our goals of pursuing the relationship with Iran were these:

- Devising a formula for reestablishing a strategic relationship with Tehran.
- Ending the Iran-Iraq War on honorable terms.
- Convincing Iran to cease its support for terrorism.
- Helping ensure the territorial integrity of Iran and coordinating ways to counter Soviet activities in the region.

Mr. McFarlane made clear that in this relationship we would expect Iran to use its influence to achieve the release of Western hostages in Lebanon. He also made it clear that we could not and would not engage in trading arms for hostages. This matter was discussed again several times with the President and others in the national security community following the December McFarlane trip.

On 17 January 1986, a Presidential Finding was signed directing the CIA to provide operational and logistical support for a program aimed at (1) establishing a more moderate government in Iran, (2) obtaining intelligence to determine the current Iranian government's intentions with respect to its neighbors and with respect to terrorist acts, and (3) furthering the release of American hostages held in Beirut and preventing further terrorist acts by these groups.

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The Finding stated that the USG would provide moderate elements within and without the government of Iran with arms equipment and related materiel in order to enhance the credibility of these elements in their efforts to achieve a more moderate government in Iran by demonstrating their ability to obtain resources to defend their country.

In the Finding, the President directed the CIA to refrain from reporting the Finding to the Congress until otherwise directed. The Finding was reviewed and concurred in by the Attorney General.

At the time the Presidential Finding was being drafted, the CIA's Office of General Counsel provided the legal opinion that the President has the authority to withhold prior notice of operations from the Congress. Section 501 of the National Security Act expressly provides that notification of intelligence activities to the Congress shall be provided "to the extent consistent with all applicable authorities and duties, including those conferred by the Constitution."

The Act also states that the Intelligence Committees be informed of activities for which no prior notice was given at the appropriate time as determined by the President. This was a clear recognition that extraordinary circumstances could lead the President to conclude that notice of an operation should be withheld, in whole or in part.

The history to the Oversight Act shows that an accommodation recognizing both the President's constitutional responsibility and authority and the Congressional oversight responsibility and authority was reached in this legislative process. The subsequent procedures agreed upon by the DCI and the SSCI on reporting covert action operations provide that advance reporting of such operations would also be subject to the exceptional circumstances contemplated in Section 501 of the National Security Act.

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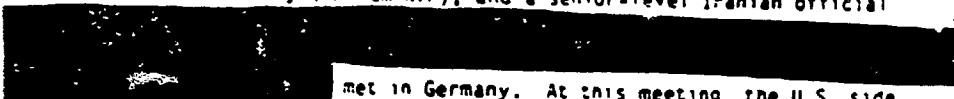
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The President has instructed me to advise you that he determined that the activities authorized by the Finding justified withholding prior notification due to the extreme sensitivity of the dialogue being established. He determined that if the fact of this program became known, those carrying out the dialogue both U.S. and Iranian and the American hostages in Lebanon would be put at a greater risk.

There have only been two Findings since the inception of the oversight process ten years ago which have not been briefed to Congress. This is one. The second was the Iranian hostage rescue mission.

Now I would like to explain exactly what activities were undertaken by the CIA in carrying out the directives of this Finding signed on 17 January 1986.

On 5-7 February 1986, U.S. officials (NSC), a representative of the Israeli Prime Ministry (Amiram Nir), and a senior-level Iranian official

 met in Germany. At this meeting, the U.S. side emphasized its desire to enter into a strategic dialogue with the Iranian side. The Iranians raised their desire to receive U.S. weapons. The U.S. agreed to explore this possibility. Working with the Israelis, the following mechanism for transfer of the weapons was established:

- The Iranian intermediary (Ghorbanifar) would deposit funds in an Israeli account.
- The funds would then be transferred to a sterile U.S.-controlled account in an overseas bank.
- Using these funds, the CIA would work with the Army Logistics Command to obtain the materiel.
- The materiel would then be transported to Israel for future shipment to Iran.

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Using these procedures, \$3.7 million was deposited in the CIA account in Geneva on 11 February 1986 for the purchase of 1,000 TOW missiles and associated costs.

On 15 February, Office of Logistics personnel delivered the 1,000 TOW missiles to Keflavik Air Force Base. The missiles were then transported to Israel for onward shipment to Iran. CIA was not involved in the transportation of this shipment.

On 19-21 February, U.S. (NSC and CIA) and Iranian officials met again in Germany to discuss problems in arranging a meeting among higher-level officials. At this meeting, the U.S. side agreed to provide 1,000 TOWs to Iran as a clear signal of U.S. sincerity and support for the faction we were talking to. This delivery was commenced on the morning of 20 February and completed in two transits to Tehran on 21 February. Transportation from Israel to Iran was aboard a false flag Israeli aircraft.

On 24 February, the same U.S. officials traveled to Germany where they met with the intermediary and an Iranian government official. At that meeting, the Iranian official provided a list of varying quantities of approximately 240 different spare parts needed for the Hawk missile batteries provided by the USG to Iran during the Shah's reign. The Iranian official asked for USG assistance in obtaining these spare parts as additional proof that this channel had the approval of the highest authority in the USG.

On 25 February, the U.S. officials, as they continued to do in later contacts with the Iranians, provided the Iranians with limited information designed to encourage an Iranian decision to negotiate an end to the war and increase Iranian awareness of the Soviet threat to Iran.

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Throughout March and April, the Office of Logistics worked with DoD to clarify the items on the Iranians' list of spare parts and identify which items were in DoD stocks.

On 7 March, U.S. (CIA and NSC) and Israeli representatives met with the Iranian intermediary in Paris to determine whether any further progress was possible in arranging for a high-level meeting with U.S. and Iranian officials. During these meetings, the intermediary emphasized the deteriorating economic situation in Iran and Iranian anxieties regarding increasing Iraqi military effectiveness.

Based on assurances that we could at last meet face-to-face with top-level Iranian officials, on 15 May the President authorized a secret mission to Tehran by former National Security Advisor McFarlane, accompanied by a CIA annuitant, a CIA communicator, members of the NSC Staff, and the Israeli and Iranian interlocutors.

On 16 May 1986, the Iranians provided \$6.5 million through an intermediary for Hawk spare parts and an additional 508 TOW missiles. The receipt of the Iranian funds set into motion arrangements for the planned visit to Iran as follows:

- The Office of Communications provided secure communication equipment and the services of a communications officer to travel to Iran with the U.S. team
- The Office of Technical Service was tasked to provide ten [REDACTED] passports for use by the team and the air crew of the aircraft that would fly from Israel to Tehran. The Iranians insisted on the use of non-U.S. passports [REDACTED] passports were chosen because the Israeli aircraft used for the journey carried [REDACTED] registration numbers.

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- The Office of Logistics assembled the available Hawk missile spare parts at Kelly Air Force Base. The parts were then transported to Israel by a private contractor (Southern Air Transport).
- The Office of Logistics delivered 508 TOW missiles to Kelly Air Force Base for onward shipment to Israel by private contractor (Southern Air Transport).

On 25 May, the U.S. team traveled to Tehran via Israel. The CIA provided two members of the team--a communications officer and a Farsi speaking annuitant with considerable experience in Iranian affairs. The annuitant provided translation services and advice to the team. He continued to be involved in subsequent meetings with Iranian representatives.

The U.S. team brought a single aircraft pallet of Hawk missile spare parts with them to Tehran at the time of the meeting. However, it was decided that the greater portion of the spare parts would stay in Israel for later delivery to Iran pending further progress in establishing the dialogue. We understand that those spare parts were ultimately delivered to Iran.

The 25-29 May meetings were held with high-level Iranian officials, the first direct contact between the two governments in over six years. Mr. McFarlane and his team were able to establish the basis for a continuing relationship and clearly articulate our objectives, concerns, and intentions. The group was also able to assess first-hand the internal political dynamic in Tehran and the effect of the war on Iran. Using Presidentially-approved Terms of Reference, which had been reviewed and approved by appropriate Cabinet officers, McFarlane emphasized that our interest in Iran transcended the hostages, but the continued detention of hostages by a Lebanese group philosophically aligned with Iran prevented progress. During the visit, Mr. McFarlane made clear

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- that we fundamentally opposed Iranian efforts to expel us from the Middle East;
- that we firmly opposed their use of terrorism;
- that we accepted their revolution and did not seek to reverse it;
- that we had numerous other disagreements involving regional policies (i.e., Lebanon, Nicaragua, etc.), but might also find areas of common interest [REDACTED] through dialogue.

On 19 September, three Iranians traveled to the U.S. for detailed discussions with the U.S. team. These discussions reaffirmed the basic objectives of the U.S. in seeking a political dialogue with Tehran.

Throughout August and September, numerous additional meetings were held in Europe between U.S. representatives and the new Iranian contacts in an effort to develop the dialogue authorized by the Presidential Finding.

On 6 October, those Iranians traveled to Frankfurt for meetings with the U.S. team. [REDACTED]

On 26 October, more meetings were held in Frankfurt with the same participants. [REDACTED]

The Iranians proffered, and the U.S. accepted, the offer of a Soviet T-72 tank [REDACTED] That tank should be in our hands shortly.

On 2 November, the Iranians provided \$2.037 million and the Office of Logistics procured 500 more TOW missiles from DoD.

Those missiles were delivered by the Office of Logistics to Kelly Air Force Base on 6 November. A USAF C-141 aircraft carried the missiles to [REDACTED] where they were transshipped by a CIA air proprietary aircraft which carried the missiles to Israel.

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This brings the record of CIA involvement in these activities authorized by the 17 January 1986 Presidential Finding up to date as of the present time. We should note that none of the weapons came from CIA stocks.

We have received no requests to acquire any more materiel of any type for shipment to Iran under this program.

I would like to reiterate that the funds for the procurement of the materiel enumerated above, as well as for all associated costs, were provided by the Iranians themselves. Funding from Iran was transferred to CIA for deposit in a covert funding mechanism. This action provided secure means for control, payment, and accountability of all funding associated with this program. The Iranian funds, a total of \$12,237,000, were deposited into a special account in a Swiss bank.

The only costs incurred by the CIA in this activity were expenses for the travel of CIA officers involved in the various meetings, the costs of hotel rooms

operational support

amounting to approximately \$46,000. The costs for this support have been charged against normal operational accounts. Since all travel by CIA officials is routinely charged to such accounts, to do otherwise in the case of the trips undertaken during this program would have compromised the security of the activities.

Let me make it perfectly clear that it was apparent to all that this initiative was a controversial one. Even those of us who supported going forward understood that it was a close call and a risky operation. There were no illusions.

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Was it a reasonable call? Yes, I think it was. As the health of Khomeini has declined over the past year, we have seen an increase in factional infighting in Tehran. This infighting has been sharpened by severe economic problems, as well as the war with Iraq. There have been numerous arrests. This factional infighting has implications for both the United States and the Soviet Union. It was the Administration's judgment that any powerful Iranian faction seeking to reestablish ties with the West and willing to attempt to curtail Iranian support for terrorism was worth talking to.

It was in that context that the judgment was made that providing a small amount of defensive weapons would give this faction some leverage in the internal struggle by suggesting that there were advantages in contacts with the West.

As I stated earlier, Iran is not going to go away. Its geographic and strategic positions guarantee that it will remain a geopolitical force which the U.S. will have to deal with. If we do not establish ties to the various Iranian factions now we will be faced with the problem of doing so later. It is that simple.

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EXCISED ANNOTATED DRAFT FOLLOWS

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Testimony
21 November 1986

20 Nov 86

Throughout the Reagan Administration, both the national security community and the intelligence community have been keenly aware and constantly concerned about the geopolitical position and the strategic significance of Iran. Much thought and effort has been devoted to how we might develop contacts and relationships which would provide a better understanding of what is happening there and ~~establish~~ ^{and} contacts and relationships which might lead to improved relationships later on.

I recall speaking to [REDACTED]

[REDACTED] about the importance of our identifying and establishing contact with leaders in a future Iran.

[REDACTED] said that we do not know who will emerge to lead Iran in the future, but that we must gather all the strands and hold them in our hands so that we will be ready.

[REDACTED] ^{one of the} In the fall of 1985, Bud McFarlane, after a weekly meeting which he and his deputy had with me and my deputy, asked me to stay behind. He told me about discussions he had had at the highest levels in Israel urging the desirability of discussions with officials in Iran and offering channels of access. ^{He told me that one - he said I spoke with him -} I distinctly recall McFarlane emphasizing that the purpose of such discussions would be the future relationships with Iran and its great importance in the East-West and Middle East-Persian Gulf equation. The Israelis wanted to put us in touch with an Iranian expatriate. The Israelis said they had checked out this man's background and contacts exhaustively and had high confidence in the quality of his relationship with high Iranian officials.

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Partially Declassified/Released on 23 June 1987
Under provisions of E.O. 13526
by S. Rager, National Security Council



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McFarlane had been told that at the time of the TWA 747 hijacking in 1985, the Israelis had asked this Iranian expatriate to use his influence with senior Iranian officials to obtain the release of some of the hijacked passengers. Just two days later, four Americans who had been ^{Taken from the plane} separated from the bulk of the hijacked passengers were freed and turned over to Syrian authorities. ^{had been} The Speaker of the Majlis, Rafsanjani, was traveling in the Middle East at the time with Iranian Foreign Minister Velayati and were believed to have intervened with the captors to release the four Americans. Rafsanjani, in a speech on 4 November 1986 (~~one year~~), for the first time publicly acknowledged his role in securing the freedom of the hijacked passengers.

In late November 1985, the NSC asked our officers to recommend a charter airline, the reliability of which we could vouch for, to carry some cargo from Tel Aviv into Iran. Our [REDACTED] was told that there was some urgency about this in connection with a meeting in Geneva between an Iranian official, the expatriate intermediary, and private U.S. citizens. Our [REDACTED] recommended a proprietary of theirs called [REDACTED]. This little airline regularly took on commercial ventures and ^{did} did not know what was being moved. When the plane got to Tel Aviv, the pilots were told the cargo was spare parts for the oil fields and was to go into Tabriz. Our [REDACTED] decided that in order to protect the plane, our [REDACTED] should be asked to get flight clearances into Iran. On 25 November 1985, the plane dropped the cargo in Tehran without knowing what it was. The Israelis were unwitting that the plane was a CIA proprietary and the airline charged the normal commercial rate which was approximately \$127 ^{thousand} million. Our Associate Deputy Director for Operations authorized the flight because of the alleged

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urgency of the requirement, but ^{He} ~~in consultation~~ ^{When} with the Deputy Director ^{was concerned} ~~it was~~ decided that we would not provide any future support of flights into Iran in the absence of a finding.

We didn't learn until sometime in January 1986 that the shipment involved 18 air defense missiles and that it was later rejected by the Iranians on the basis that it was not what the Iranians had ordered from the Israelis. In this affair, our air proprietary had been made available to accommodate a delivery requirement in which the NSC was interested and the shipment was billed and paid for at the normal rates charged by our air proprietary.

In the meantime, the policy of ~~probing~~ ^{examining} the possibility of discussions with Iranian officials, including small shipments of arms to establish our good faith and to induce them to use their influence with those holding our hostages, was discussed at one or two meetings of the NSPG principals. There were differences of view about the desirability of this policy, but it was finally decided that it should be cautiously pursued.

On 6-8 December 1985, Bud McFarlane, then National Security Advisor, met in London with the Israeli officials and the Iranian expatriate. At this meeting, Mr. McFarlane stated our goals of pursuing the relationship with Iran were these:

- Devising a formula for reestablishing a strategic relationship with Tehran.
- Ending the Iran-Iraq War on honorable terms.
- Convincing Iran to cease its support for terrorism.
- Helping ensure the territorial integrity of Iran and coordinating ways to counter Soviet activities in the region.

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Mr. McFarlane made clear that in this relationship we would expect Iran to use its influence to achieve the release of Western hostages in Lebanon. He also made it clear that we could not and would not engage in trading arms for hostages.

On 17 January 1986, a Presidential Finding was signed directing the CIA to provide operational and logistical support for a program aimed at (1) establishing a more moderate government in Iran, (2) obtaining intelligence to determine the current Iranian government's intentions with respect to its neighbors and with respect to terrorist acts, and (3) furthering the release of American hostages held in Beirut and preventing further terrorist acts by these groups.

The Finding stated that the USG will provide moderate elements within the government of Iran with arms equipment and related materiel in order to enhance the credibility of these elements in their efforts to achieve a more moderate government in Iran by demonstrating their ability to obtain resources to defend their country.

In the Finding, the President directed the CIA to refrain from reporting the Finding to the Congress as provided in Section 501 of the National Security Act of 1947, as amended, until otherwise directed.

At the time the Presidential Finding was signed, the CIA's Office of General Counsel provided the legal opinion that the President clearly has the authority to withhold prior notice of operations from the Congress. Section 501 of the National Security Act expressly provides that notification of intelligence activities to the Congress shall be provided "to the extent consistent with all applicable authorities and duties, including those conferred by the Constitution."

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The Act also states that the Intelligence Committees be informed of activities for which no prior notice was given at the appropriate time as determined by the President. This was a clear recognition that extraordinary circumstances could lead the President to conclude that notice of an operation should be withheld, in whole or in part.

The history to the Oversight Act shows that an accommodation recognizing both the President's constitutional responsibility and authority and the Congressional oversight responsibility and authority was reached in this legislative process. The subsequent procedures agreed upon by the DCI and the SSCI on reporting covert action operations provide that advance reporting of such operations would also be subject to the exceptional circumstances contemplated in Section 501 of the National Security Act.

The President determined that the activities authorized by the Finding justified withholding prior notification due to the extreme sensitivity of the dialogue being established. His advisors recognized that if the fact of this program became known, the American hostages in Lebanon would be put at a greater risk.

On 5-7 February 1986, U.S. officials from the NSC and CIA met in Germany with representatives of the Israeli Prime Ministry and a senior-level Iranian official. At this meeting, the Iranians agreed that if the USG would provide TOW weapons to Iran, they would, [REDACTED]

[REDACTED] The U.S. agreed to explore this possibility and, working with the Israelis, established the following mechanism for transfer of the weapons:

- The Iranian intermediary would deposit funds in an Israeli account.

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-- The Israelis would transfer funds to a sterile U.S.-controlled account in an overseas bank.

-- Using these funds, the CIA would covertly obtain materiel authorized for transfer from U.S. military stocks and transport this to Israel for onward movement to Iran.

Using these procedures, funds were deposited in the CIA account in Geneva on 11 February 1986 and on 14 February 1,000 TOWs were transported to Israel for pre-positioning. These TOWs were transferred by CIA from DoD (U.S. Army stocks in Anniston, Alabama) and transported through [REDACTED] using standard CIA-DoD [REDACTED] logistics arrangements. Policy-level coordination for these arrangements was effected by NSC (North) with DoD (Armitage and Koch) and CIA (Clair George). The TOWs were placed in a covert Israeli facility awaiting onward shipment.

On 19-21 February, U.S. and Iranian officials (NSC and CIA) met again in Germany to discuss problems in arranging a meeting among higher-level officials. At this meeting, the U.S. side agreed to provide 1,000 TOWs to Iran as a clear signal of U.S. sincerity. This delivery was commenced in the morning of 20 February and completed in two transits to Tehran on 21 February. Transportation from Israel to Iran was aboard a false flag Israeli aircraft.

On 7 March, U.S. (CIA and NSC) and Israeli representatives met with the Iranian intermediary in Paris to determine whether any further progress was possible in arranging for a high-level meeting with U.S. and Iranian officials. During these meetings, the intermediary emphasized the deteriorating economic situation in Iran and Iranian anxieties regarding increasing Iraqi military effectiveness.

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Based on [REDACTED] that we could at last meet face-to-face with top-level

Iranian officials, on 15 May the President authorized a secret mission to Tehran by former National Security Advisor McFarlane, accompanied by a CIA annuitant, CIA communicators, members of the NSC Staff, and the Israeli and Iranian interlocutors. In order to ensure operational security, the trip was made from Israel, coincident with the delivery of a pallet of spare parts for Iranian defensive weapons systems (MAWK spare electronic parts). At the specific request of the Iranians, alias foreign documentation [REDACTED] obtained from the CIA--was used.

In the course of the four-day (25-29 May) visit, lengthy meetings were held with high-level Iranian officials, the first direct contact between the two governments in over six years. Mr. McFarlane and his team were able to establish the basis for a continuing relationship and clearly articulate our objectives, concerns, and intentions. The group was also able to assess firsthand the internal political dynamic in Tehran and the effect of the war on Iran. Using Presidentially-approved Terms of Reference, which had been reviewed and approved by appropriate Cabinet officers, McFarlane emphasized that our interest in Iran transcended the hostages, but the continued detention of hostages by a Lebanese group philosophically aligned with Iran prevented progress. During the visit, Mr. McFarlane made clear:

- that we fundamentally opposed Iranian efforts to expel us from the Middle East;
- that we firmly opposed their use of terrorism;
- that we accepted their revolution and did not seek to reverse it;
- that we had numerous other disagreements involving regional policies (i.e., Lebanon, Nicaragua, etc.), but might also find areas of common interest [REDACTED] through dialogue.

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During these meetings, both sides used the opportunity to detail the obstacles to implementing a strategic relationship between the two countries. In addition to the points noted above, Mr. McFarlane emphasized the political problems caused by Iranian involvement in the hostage issue. The Iranians objected to the USG embargo on U.S. military supplies already paid for plus the continued USG blocking of Iranian assets in the U.S., even after U.S. courts had ruled in their favor.

On 10 June, Majlis Speaker Rafsanjani, in a speech in Tehran made guarded reference to Iranian interest in improved relations with the U.S. On 26 July, Father Lawrence Jenco was released in the Bekka Valley and found his way to a Syrian military checkpoint. On 3 August, three pallets (less than 1/2 planeload) of electronic parts for Iranian anti-aircraft defenses (HAWK missile sub-components) arrived in Tehran (from Israel).

In mid-August, two contacts were made with Iran. George Cave made contact with [REDACTED], and Ollie North made contact with [REDACTED] of the senior Iranian official Rafsanjani. Through August, September, and October 1986, numerous additional meetings were held in Europe between U.S. representatives and the new and Iranian contacts. During the 26 October 1986 meeting in Frankfurt, Germany, the U.S. side, as in the past, insisted that the release of the hostages was a pre-requisite to any progress. The Iranian [REDACTED] urged that we take a more active role in support [REDACTED] and suggested again that if we could provide additional TOM weapons to Iran [REDACTED]

[REDACTED] The Iranians also proffered, and the U.S. accepted, the offer of a Soviet T-72

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At this meeting, [REDACTED] stated that there was a "very good chance that another American or two would be freed soon." On 29 October, with U.S. acquiescence, Israel provided Iran with an additional increment of defensive weapons (500 TOW missiles).

These discussions with [REDACTED] satisfied us first that we were directly in touch with top leadership in Iran and that there was some interest in working together in converging the strategic interests of Iran and the U.S. and our moderate Arab friends in the Persian Gulf in protecting them from the threat of Soviet aggression.

Late on 31 October, [REDACTED] called the U.S. citizen (Wakim) tasked to maintain contact and advised that Iran had "exercised its influence with the Lebanese" in order to obtain the release of an American--David Jacobsen and an uncertain number of French hostages. He further noted that this was part of the purpose of the Iranian Foreign Minister's visit to Syria. On 2 November, David Jacobsen was released by his captors near the old American Embassy compound in West Beirut. The U.S. Embassy in East Beirut immediately dispatched an embassy officer to West Beirut to pick up Mr. Jacobsen.

It now appears that persistent U.S. efforts to establish contact with Iran have probably exacerbated the power struggle in Iran between pragmatic elements (led by Rafsanjani) and more radical factions (under the overall sponsorship of Ayatollah Montazeri). In late October, radical supporters (of Montazeri) revealed the (Rafsanjani) contact with the USG and the terms of the contact. Apparently to defend himself against charges of colluding with the USG and to preserve a degree of latitude for both parties, Majlis Speaker Rafsanjani provided a purposely distorted version of the May 1926 McFarlane mission in his 4 November address to the masses.

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[REDACTED]

The arrest of Mehdi Hashemi

[REDACTED]

Despite these internal difficulties and attendant publicity in the Western media, the Iranians continue to maintain direct contact with the USG and met again in Geneva on 9-10 November with NSC and CIA representatives.

[REDACTED]

It is important to note that since the initiation of the USG contact with Iran, there has been no evidence of Iranian government complicity in acts of terrorism against the U.S. We believe that the September-October kidnappings of Messrs. Reed, Cicippio, and Tracy were undertaken in an effort to undermine the nascent U.S.-Iranian strategic dialogue and exacerbate the internal Iranian power struggle against the moderate faction with which we have been in contact.

[REDACTED]

Contrary to speculative reports that these hostages were taken in order to stimulate the acquisition of more arms, they were most likely captured in order to prevent the very rapprochement with Iran we are seeking.

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EXCISED ANNOTATED DRAFT FOLLOWS

EXHIBIT OLN-28

UNCLASSIFIED

20 Nov 86

Iran Testimony
21 November 1986

8 July 87

Throughout the Reagan Administration, both the national security community and the intelligence community have been keenly aware and constantly concerned about the geopolitical position and the strategic significance of Iran. Much thought and effort has been devoted to how we might develop contacts and relationships which would provide a better understanding of what is happening there and establish contacts and relationships which might lead to improved relationships later on.

I recall speaking to [REDACTED] about the importance of our identifying and establishing contact with leaders in a future Iran.

[REDACTED] said that we do not know who will emerge to lead Iran in the future, but that we must gather all the strands and hold them in our hands so that we will be ready.

In the fall of 1985, Bud McFarlane, after a weekly meeting which he and his deputy had with me and my deputy, asked me to stay behind. He told me about discussions he had had at the highest levels in Israel urging the desirability of discussions with officials in Iran and offering channels of access. I distinctly recall McFarlane emphasizing that the purpose of such discussions would be the future relationships with Iran and its great importance in the East-West and Middle East-Persian Gulf equation. The Israelis wanted to put us in touch with an Iranian expatriate. The Israelis said they had checked out this man's background and contacts exhaustively and had high confidence in the quality of his relationship with high Iranian officials.

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In late November 1985, the NSC asked our officers to recommend a charter airline, the reliability of which we could vouch for, to carry some cargo from Tel Aviv into Iran. Our [redacted] was told that there was some urgency about this in connection with a meeting in Geneva between an Iranian official, the expatriate intermediary, and private U.S. citizens. Our [redacted]

recommended a proprietary of theirs [redacted]. This little airline regularly took on commercial ventures, and we did not know what was being moved. When the plane got to Tel Aviv, the pilots were told the cargo was spare parts for the oil fields and was to go into Tabriz. [redacted] decided that in order to protect the plane, our [redacted] should be asked to get flight clearances into Iran. On 25 November 1985, the plane dropped the cargo in Tehran without knowing what it was. The Israelis were unwitting that the plane was a CIA proprietary, and the airline charged the normal commercial rate which was approximately \$127 million. Our Associate [redacted]

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attached by HSC
urgency of the requirement, but in consultation with the Deputy Director decided that we ~~should~~ ^{should} not provide any future support of flights into Iran in the absence of a finding.

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In the meantime, the policy of probing the possibility of discussions with Iranian officials, including small shipments of arms to establish our good faith and to induce them to use their influence with those holding our hostages, was discussed at one or two meetings of the NSPG principals. There were differences of view about the desirability of this policy, but it was finally decided that it should be cautiously pursued.

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- Convincing Iran to cease its support for terrorism.
- Helping ensure the territorial integrity of Iran and coordinating ways to counter Soviet activities in the region.

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Mr. McFarlane made clear that in this relationship we would expect Iran to use its influence to achieve the release of Western hostages in Lebanon. He also made it clear that we could not and would not engage in trading arms for hostages.

On 12 January 1986, a Presidential Finding was signed directing the CIA to provide operational and logistical support for a program aimed at (1) establishing a more moderate government in Iran, (2) obtaining intelligence to determine the current Iranian government's intentions with respect to its neighbors and with respect to terrorist acts, and (3) furthering the release of American hostages held in Beirut and preventing further terrorist acts by these groups.

The Finding stated that the USG will provide moderate elements within the government of Iran with arms equipment and related materiel in order to enhance the credibility of these elements in their efforts to achieve a more moderate government in Iran by demonstrating their ability to obtain resources to defend their country.

In the Finding, the President directed the CIA to refrain from reporting the Finding to the Congress as provided in Section 501 of the National Security Act of 1947, as amended, until otherwise directed.

At the time the Presidential Finding was signed, the CIA's Office of General Counsel ^{concluded} ~~provided the legal opinion~~ that the President clearly has the authority to withhold prior notice of operations from the Congress. Section 501 of the National Security Act expressly provides that notification of intelligence activities to the Congress shall be provided to the extent consistent with all applicable authorities and duties, including those conferred by the Constitution "

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The Act also states that the Intelligence Committees be informed of activities for which no prior notice was given at the appropriate time as determined by the President. This was a clear recognition that extraordinary circumstances could lead the President to conclude that notice of an operation should be withheld, in whole or in part.

The history to the Oversight Act shows that an accommodation recognizing both the President's constitutional responsibility and authority and the Congressional oversight responsibility and authority was reached in this legislative process. The subsequent procedures agreed upon by the DCI and the SSCI on reporting covert action operations provide that advance reporting of such operations would also be subject to the exceptional circumstances contemplated in Section 501 of the National Security Act.

The President determined that the activities authorized by the Finding justified withholding prior notification due to the extreme sensitivity of the dialogue being established. His advisors recognized that if the fact of this program became known, the American hostages in Lebanon would be put at a greater risk.

On 5-7 February 1986, U.S. officials from the NSC and CIA met in Germany with representatives of the Israeli Prime Ministry and a senior-level Iranian official. At this meeting, the Iranians agreed that if the USG would provide TOW weapons to Iran, they would.

The U.S. agreed to explore this possibility and, working with the Israelis, established the following mechanism for transfer of the weapons:

-- The Iranian intermediary would deposit funds in an Israeli account.

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- The Israelis would transfer funds to a sterile U.S.-controlled account in an overseas bank.
- Using these funds, the CIA would covertly obtain materiel authorized for transfer from U.S. military stocks and transport this to Israel for onward movement to Iran.

Using these procedures, funds were deposited in the CIA account in Geneva on 11 February 1986 and on 14 February 1,000 TOWs were transported to Israel for pre-positioning. These TOWs were transferred by CIA from DoD (U.S. Army stocks in Anniston, Alabama) and transported through [REDACTED] using standard CIA-DoD [REDACTED] logistics arrangements. Policy-level coordination for these arrangements was effected by NSC (North) with DoD (Armitage and Koch) and CIA (Clair George). The TOWs were placed in a covert Israeli facility awaiting onward shipment.

On 19-21 February, U.S. and Iranian officials (NSC and CIA) met again in Germany to discuss problems in arranging a meeting among higher-level officials. At this meeting, the U.S. side agreed to provide ^{to Iran the 1,000 TOWs that had been} ~~1,000 TOWs to~~ *re-positioned on 14 February* as a clear signal of U.S. sincerity. This delivery was commenced on the morning of 20 February and completed in two transits to Tehran on 21 February. Transportation from Israel to Iran was aboard a false flag Israeli aircraft.

On 7 March, U.S. (CIA and NSC) and Israeli representatives met with the Iranian intermediary in Paris to determine whether any further progress was possible in arranging for a high-level meeting with U.S. and Iranian officials. During these meetings, the intermediary emphasized the deteriorating economic situation in Iran and Iranian anxieties regarding increasing Iraqi military effectiveness.

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Based on assurances that we could at last meet face-to-face with top-level Iranian officials, on 15 May the President authorized a secret mission to Tehran by former National Security Advisor McFarlane, ~~accompanied by a CIA~~

← On 16 May 1986, the Iranians provided \$6.5 million through an intermediary for Hawk spare parts and an additional 500 TOM missiles. The receipt of the Iranian funds set into motion arrangements for the planned visit to Iran as follows:

--The Office of Communications provided secure communication equipment and the services of a communications officer to travel into Iran with the U.S. team.

--The Office of Technical Services was tasked to provide ten [REDACTED] passports for use by the team and the air crew of the aircraft that would fly from Israel to Tehran. The Iranians insisted on the use of non-U.S. passports. [REDACTED] passports were chosen because the Israeli aircraft used for the journey carried [REDACTED] registration numbers.

--The Office of [REDACTED]

assembled the available Air Force Base. The [REDACTED] a private

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During these meetings, both sides used the opportunity to detail the obstacles to implementing a strategic relationship between the two countries. In addition to the points noted above, Mr. McFarlane emphasized the political problems caused by Iranian involvement in the hostage issue. The Iranians objected to the USG embargo on U.S. military supplies already paid for plus the continued USG blocking of Iranian assets in the U.S., even after U.S. courts had ruled in their favor.

On 10 June, Majlis Speaker Rafsanjani, in a speech in Tehran made guarded reference to Iranian interest in improved relations with the U.S. On 26 July, Father Lawrence Jenco was released in the Bekka Valley and found his way to a Syrian military checkpoint. On 3 August, three pallets (less than 1/2 plane load) of electronic parts for Iranian anti-aircraft defenses (HAWK missile sub-components arrived in Tehran (from Israel).

In mid-August, two contacts were made with Iran. George Cave made contact with [REDACTED] a CIA contact, and Ollie North made contact with [REDACTED] of the senior Iranian official Rafsanjani. Through August, September, and October 1986, numerous additional meetings

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no other information

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[REDACTED]

the arrest of Mehdi Hashemi

[REDACTED]

Despite these internal difficulties and attendant publicity in the Western media, the Iranians continued to maintain direct contact with the USG and met again in Geneva on 9-10 November with NSC and CIA representatives.

expanded

It is important to note that since the initiation of the USG contact with Iran, there has been no evidence of Iranian government complicity in acts of terrorism against the U.S. We believe that the September-October kidnappings of Messrs. Reed, Cicippio, and Tracy were undertaken in an effort to undermine the nascent U.S.-Iranian strategic dialogue and exacerbate the internal Iranian power struggle against the moderate faction with which we have been in contact.

[REDACTED]

Contrary to speculative reports

that these hostages were taken in order to stimulate the acquisition of more arms, they were most likely captured in order to prevent the very rapprochement

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This brings the record of CIA involvement in these activities authorized by the 17 January 1986 Presidential Finding up to date as of the present time. We should note that none of the weapons came from CIA stocks.

We have received no requests to acquire any more materiel of any type for shipment to Iran under this program.

I would like to reiterate that the funds for the procurement of the materiel enumerated above, as well as for all associated costs, were provided by the Iranians themselves. Funding from Iran was transferred to CIA for deposit in a covert funding mechanism. This action provided secure means for control, payment, and accountability of all funding associated with this program. The Iranian funds, a total of \$12,237,000, were deposited into a special account in a Swiss bank.

The only costs incurred by the CIA in this activity were expenses for the travel of CIA officers involved in the various meetings, the costs of hotel rooms

operational support amounting to approximately \$48,000. The costs for this support have been charged against normal operational accounts. Since all travel by CIA officials is routinely charged to such accounts, to do otherwise in the case of the trips undertaken during this program would have compromised the security of the activities.

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LEGALITY OF ARM SHIPMENTS

Questions which have appeared in the media as to the legality of the arms shipments raise the question as to whether or not the CIA was responding to a legal order.

At the time the Presidential Finding was signed, applicable legal authorities were reviewed and it was determined that there is clear and ample authority for the President to approve transfers outside the context of the Foreign Assistance Act and Arms Export Control Act. Those laws were not intended and have not been applied by Congress to be the exclusive means for sale, loan or provision of U.S. military equipment to foreign governments.

CIA's legal authority to furnish U.S. military equipment to foreign governments on a covert basis is based on language contained in Section 102 (d) of the National Security Act of 1947, which provides that it shall be the duty of the CIA, under NSC direction, to perform services of common concern for the benefit of intelligence agencies and to perform "such other functions and duties relating to intelligence affecting the national security as the National Security Council may from time to time direct." In short, it is clear that legal authority exists for CIA to transfer U.S. military equipment abroad outside the foreign military sales and assistance statutory framework when the activity is in furtherance of a legitimate and authorized CIA mission; that is, a special activity or intelligence collection operation.

This fundamental and underlying legal conclusion has been arrived at by the CIA Office of General Counsel and has been confirmed by the Attorney General. A transfer is legal, therefore, if we can show that the transfer is in the furtherance of an approved and legitimate intelligence activity and, for covert action, that there is a signed Presidential Finding covering the activity as provided by the Hughes-Ryan Amendment.

The next question is how the CIA obtains the materiel it needs in order to meet those legitimate intelligence interests. CIA's legal authorities permit it to obtain military equipment if it is available on the open market. If that is not the case, or if the equipment cannot be provided as conveniently or cheaply by a commercial enterprise, CIA can utilize the Economy Act to obtain the necessary items from the Department of Defense. Of course, transfers of U.S. military

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equipment in general ought to be, and are in fact, made to foreign governments under the U.S. foreign assistance program. However, it is important to point out that any decision to have CIA supply U.S. military equipment inherently involves a determination that the foreign military assistance framework is inappropriate for that purpose. Obviously, the very purpose and nature of the operation for which CIA's extraordinary authorities have been utilized are incompatible with the concept underlying overt U.S. foreign aid programs.

Let me assure you that at the time the decision to go forward with the Presidential Finding for this sensitive operation was made, these legal authorities were reviewed in order to ensure that this Agency was in full compliance with the law.

CONCLUSION:

Let me make it perfectly clear that it was apparent to all that this initiative was a controversial one. Even those of us who supported going forward understood that it was a close call and a risky operation. There were no illusions.

Was it a reasonable call? Yes, I think it was. As the health of Khomeini has declined over the past year, we have seen an increase in factional infighting in Tehran. This infighting has been sharpened by severe economic problems, as well as the war with Iraq. There have been numerous arrests. This factional infighting has implications for both the United States and the Soviet Union. It was the Administration's judgement that any powerful Iranian faction seeking to reestablish ties with the West and willing to attempt to curtail Iranian support for terrorism was worth talking to.

It was in that context that the judgement was made that providing a small amount of defensive weapons would give this faction some leverage in the internal struggle by suggesting that there were advantages in contacts with the West.

As I stated earlier, Iran is not going to go away. Its geographic and strategic position guarantee that it will remain a geopolitical force which the U.S. will have to deal with. If we do not establish ties to the various Iranian factions now, we will be faced with the problem of doing so later. It is that simple.

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about the Administration, both the national security community and the intelligence community have been keenly aware and constantly concerned about the geopolitical position and the strategic significance of Iran. Much thought and effort have been devoted to how we might develop contacts and relationships which would provide a better understanding of what is happening there and establish contacts and relationships which might lead to improved relationships later on.

I recall speaking to [REDACTED] about the importance of identifying and establishing contact with leaders in a future Iran.

[REDACTED] said that we do not know who will emerge to lead Iran in the future and that we must gather all the strands and hold them in our hands so we will be ready.

In the fall of 1985, Bud McFarlane, after a weekly meeting which he and his deputy had with me and my deputy, asked me to stay behind. He told me about discussions he had had at the highest levels in Israel urging the desirability of discussions with officials in Iran and offering [REDACTED] of access. I distinctly recall McFarlane emphasizing that the [REDACTED] such discussions would be the future relationships with Iran and their importance in the East-West and Middle East-Persian Gulf equation. [REDACTED] to put us in touch with an Iranian expatriate. The Israelis said they checked out this man's background and contacts exhaustively and had high confidence in the quality of his relationship with high Iranian officials.

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